



**Director of
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OCPAS/C1G

CY# 285

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National Intelligence Daily

Saturday

14 April 1984

~~**Top Secret**~~

CPAS NID 84-088JX

14 April 1984

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IRAQ-IRAN:**Iraqi Optimism**

Iraq's leaders are optimistic that Iran is weakening militarily and economically. [redacted]

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[redacted] Iraqi leaders believe that there will be a turning point in the war this year and that Iran may not be able to launch any large offensives after 1984. The Iraqis estimate that Iran suffered 50,000 casualties in February and March. [redacted]

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[redacted] senior Iraqi officials believe that sagging morale and heavy losses have so weakened the Iranian military that its anticipated attack on Al Basrah will be no larger than earlier attacks. They are convinced that they can defeat the Iranians on the Majnoon Islands because of flooding and the increasing effectiveness of the Iraqi Air Force. [redacted]

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The Iraqis [redacted] view Iran's clerical rulers as under increasing pressure to end the war. They cite Iran's growing difficulty in recruiting troops and purchasing arms, logistic problems, and inflation and fiscal mismanagement. Iraqi leaders are beginning to believe that increased economic pressure on Iran will produce more changes favorable to Iraq. [redacted]

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Comment: [redacted] the effects of the war are causing concern among some prominent Iranian clerics. Iraqi leaders, however, probably are exaggerating Iran's domestic and military problems. Ayatollah Khomeini has not yet been convinced of the need to consider ending the conflict. [redacted]

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Iraq is likely to stick with what it regards as a successful strategy of trying to persuade the West to curtail trade with Iran. The Iraqis probably will continue periodic airstrikes on shipping near Khark Island to discourage oil purchases from Iran. [redacted]

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[redacted]

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FRANCE:**Labor Problems Strain Coalition**

The "march on Paris" yesterday by over 30,000 steelworkers will not weaken the government's resolve to modernize the steel industry, but the participation of Communist Party leader Marchais will further increase tensions between Socialists and Communists. [redacted]

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Comment: Relations in the coalition are at their lowest point since 1981. Marchais has condemned the government's decision to phase out 25,000 steel jobs and to make similar cutbacks in the coal, shipbuilding, transportation, and automobile sectors—all strongholds of the Communist-dominated labor federation. In a recent interview, Marchais charged President Mitterrand had reneged on the coalition agreement of 1981, which promised expansionary economic policies.

[redacted] 25X1

Mitterrand emphasized that failure to modernize heavy industry would wreck French competitiveness and depress living standards. He has warned that Communist efforts to undermine public confidence in government policies would be incompatible with continued participation in the government. [redacted]

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Widespread reports indicate that the coalition is unlikely to break up before the European Parliament election in June but that chances of its survival will decrease thereafter. French commentators note that neither side wants to appear responsible for a breakup, but both seem intent on pushing their incompatible economic programs and maneuvering one another into ending the coalition. [redacted]

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The timing of a break is likely to depend in part on the duration and seriousness of Communist-led labor protests. Marchais' participation in the march probably reflects a belief among Communist leaders that the rank and file support such actions, and they could make stronger attacks on Mitterrand's policies. If the four Communist cabinet-level appointees join Marchais in public criticism, Mitterrand may take stern action. [redacted]

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[redacted]

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USSR:**Cooperation on Foreign Policy**

General Secretary Chernenko is being supported as President—in the area of foreign affairs—by chief party executive Gorbachev, his former rival. [redacted]

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At the plenum of the Central Party Committee, Chernenko had said that the foreign affairs commissions of the Supreme Soviet could do more to coordinate and supervise the work of government organizations concerned with international affairs. At the Supreme Soviet session on Wednesday, Gorbachev nominated Chernenko for president, stressing that in the conduct of foreign affairs it is particularly important to have the party General Secretary also hold the post of president. [redacted]

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In his acceptance speech, Chernenko again noted the key role that the foreign affairs commissions should play. Gorbachev then was elected to head one of the two commissions, the same one that Chernenko headed after Brezhnev died. [redacted]

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The two foreign affairs commissions met after the Supreme Soviet session. Gorbachev and Politburo candidate member Ponomarev, who retains the chairmanship of the second commission, spoke of the work to be done by their groups along the lines proposed by Chernenko. The commissions were then staffed by key foreign affairs officials of the Central Committee. [redacted]

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Comment: Chernenko has seemed to be overshadowed in foreign policy matters by the other senior members of the Politburo, especially by Foreign Minister Gromyko. One Soviet diplomat recently disparaged Chernenko's abilities in this area, stating that Gromyko was preeminent in shaping foreign policy. The imbalance now seems to have been partly redressed. [redacted]

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Gorbachev will gain visibility in foreign affairs, and this will improve his credentials as a potential successor to Chernenko. If Gorbachev should succeed Chernenko while Gromyko is still in office, it would be to Gorbachev's advantage to have the presidency play a key role in foreign policy. [redacted]

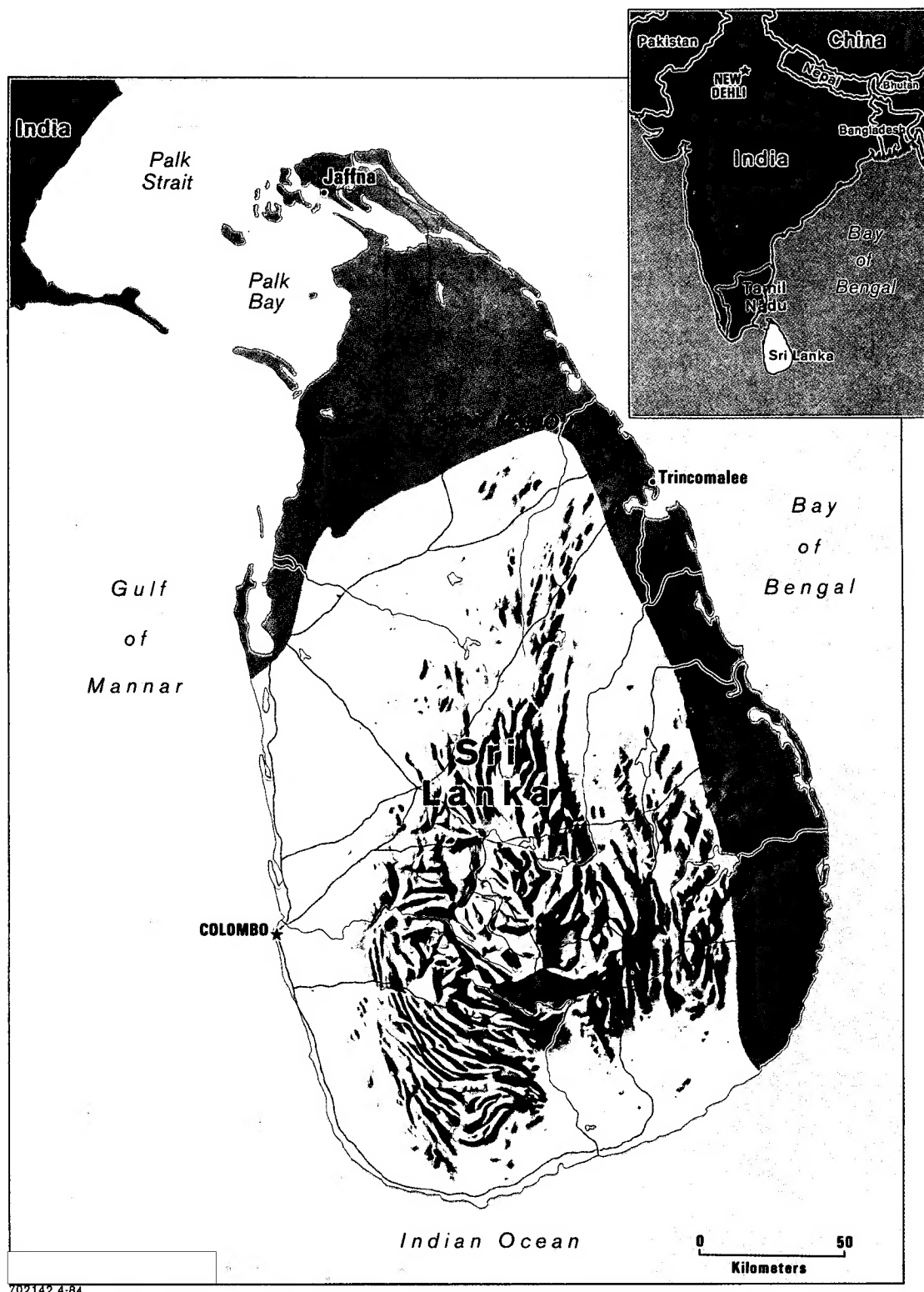
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INDIA-SRI LANKA: Prospects for Intervention

Prime Minister Gandhi has informed US officials that communal turmoil in Sri Lanka may be getting out of hand and implied that India may have to intervene directly. [REDACTED]

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Gandhi told US officials that President Jayewardene has failed to fulfill promises made to India last fall during the Commonwealth Conference in New Delhi. She charged that Jayewardene has ignored moderate demands by the Tamils for limited autonomy and that Colombo's recent security measures in Jaffna are endangering Tamil civilians. The Prime Minister denied that India is providing sanctuary, arms, or training to Tamil insurgents based in India. [REDACTED]

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Jayewardene assured government officials and diplomats on 6 April that, under the security treaty of 1948, Sri Lanka could count on the British for assistance if it is threatened by a foreign power. According to British officials, however, London does not consider the defense treaty binding. [REDACTED]

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Comment: India is likely to weigh in militarily if the violence in Sri Lanka threatens to provoke a massive influx of refugees into southern India or to invite intervention by foreign powers. Gandhi is under growing domestic pressure to support the Tamils in Sri Lanka. The language she used with US officials is similar to that employed by the Indians before they moved into East Pakistan in 1971. [REDACTED]

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India could launch an amphibious assault against Sri Lanka on short notice. The Navy's 10 landing ships can move a fully equipped infantry battalion with some supporting armor. Since last October, India has increased the number of naval ships and personnel in the southeast, and it also may have created a special naval infantry force. Sri Lanka's 25,000-man Army could offer only token resistance to an Indian invasion. [REDACTED]

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**CANADA-
CENTRAL
AMERICA:****Policy Review**

Prime Minister Trudeau may consider the controversy over the mining of Nicaraguan ports an opportunity to increase Canada's involvement in Central America. [redacted]

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Trudeau, in answering questions in Parliament on Wednesday, called the mining an "act of terrorism" but stopped short of condemning the US. Although Trudeau and External Affairs Minister MacEachen both said Canada will not support France's proposal to provide minesweepers, they stated they would take a sympathetic view of proposals by regional or international organizations to remove the mines. [redacted]

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MacEachen also announced this week that Ottawa is prepared to join the OAS, according to unconfirmed press reports. In addition, Trudeau will discuss Central America and the Contadora process with Mexican President de la Madrid when they meet in Ottawa next month. [redacted]

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Comment: Trudeau has long considered Central America an area of vital interest to the US, and he thus has not been inclined to condemn US policies in the region publicly. Nevertheless, the mining and the US decision on the International Court of Justice strike at the traditional legalistic basis of Canada's foreign policy and have provoked widespread criticism. [redacted]

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Ottawa also appears ready to expand Canada's presence in Central America by indicating an increased willingness to cooperate with the Contadora group, an option it has been considering since last fall. Last week MacEachen convened Canadian diplomats in the region, and he probably briefed them on the possibility of Canada's accepting observer status in the group. Ottawa is likely to view association with the group and membership in the OAS as a means of increasing both its prestige and its foreign trade in the region. [redacted]

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EGYPT:**Government Moves Against Opposition**

The government is taking increasingly strong measures to influence the parliamentary elections scheduled for 27 May.

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The government confiscated the edition on Thursday of the newspaper of the leading opposition party, the New Wafd. The lead story dealt with a theft from the Justice Ministry of materials used in the current trial of members of al-Jihad, an Islamic extremist group. Press reports state that a court has ordered the edition released.

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A member of the New Wafd Party in parliament who recently had defected from the ruling National Democratic Party died on Tuesday under suspicious circumstances, according to the Embassy. A series of articles in the government-owned press had implicated him in drug trafficking. The victim had complained to the leader of the New Wafd Party that the government was trying to discredit him.

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Comment: This is the first time that Mubarak's government has confiscated an opposition publication. It is the second time it has lost a court case against the Wafd.

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The government may have feared that the article on the al-Jihad trial would stir up Islamic sentiment before the elections. The opposition press recently attacked the government for using secretly recorded confessions—which were presumably among the stolen materials—to confirm earlier confessions that the defendants claimed were obtained by torture.

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Responsibility for the murder remains unclear. The opposition probably will raise the possibility of government involvement.

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USSR-ETHIOPIA:**Strained Relations**

Officials in Rome and third-country diplomats in Addis Ababa say that Chairman Mengistu's visit to Moscow late last month failed to ameliorate longstanding tensions. [redacted]

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The Ethiopian Industry Minister, who accompanied Mengistu, described the visit to an Italian official as "bad in all important aspects." He said Mengistu deeply resented a Soviet refusal to delay the visit to allow Mengistu to attend the funeral of Guinea's President Toure. The diplomats in Addis Ababa say the trip was cut short, but General Secretary Chernenko has accepted an invitation to visit Ethiopia. [redacted]

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Comment: Moscow appears to be worried that it may lose influence in Addis Ababa despite its extensive military aid and that the arms credits will never be repaid. The Soviets might consider providing new military or economic aid commitments if pro-Soviet civilians were given important positions in the new Communist party. Mengistu's nationalistic military clique, however, probably will control the party.

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Chernenko is unlikely to attend the party inauguration in September, unless he is satisfied that the party is pro-Soviet. The USSR, however, will continue to provide the minimum amount of military and economic aid needed to maintain its position in Ethiopia. [redacted]

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IRAN-JAPAN:**Results of Foreign Minister's Visit**

Some progress in bilateral relations appears to have been achieved during Iranian Foreign Minister Velayati's visit to Tokyo earlier this week. [redacted]

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Velayati mollified the Japanese by asserting that Tehran will not try to close the Strait of Hormuz unless its oil exports are completely cut off. The Japanese are Iran's largest customers for oil and purchase nearly one-quarter of the 1.9 million barrels per day it exports. They are concerned about security in the Persian Gulf, the higher costs of Iranian oil, and Tehran's reluctance to buy more Japanese goods to balance Tokyo's sizable trade deficit with Iran. [redacted]

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Officials in the Japanese Foreign Ministry say that Velayati did not request to buy Japanese aircraft and radars. He also did not press Tokyo hard to encourage Japanese technical personnel at the huge petrochemical complex at Bandar-e Khomeyni to return to work. [redacted]

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On the other hand, Velayati asked Tokyo to encourage Japanese trading companies to renew oil contracts that lapsed last month. The Japanese claimed that the decision rests solely with the companies. [redacted]

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Velayati publicly and privately emphasized that Moscow's military support for Iraq had caused a deterioration in Soviet-Iranian relations. His criticism of the US was muted, and his deputy privately commended the US for opposing Iraq's use of chemical weapons. Japanese Foreign Minister Abe's favorable public remarks on Iran, however, have already provoked an Iraqi protest. [redacted]

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Comment: The Foreign Minister's restrained remarks demonstrate Tehran's keen interest in expanding economic relations with Japan. Although Tokyo is unlikely to approve exports to Iran with military applications, the Iranians probably will continue to seek such equipment and spare parts from Japan. Velayati's views on relations with the USSR reflect Tehran's hostility toward Moscow, [redacted]

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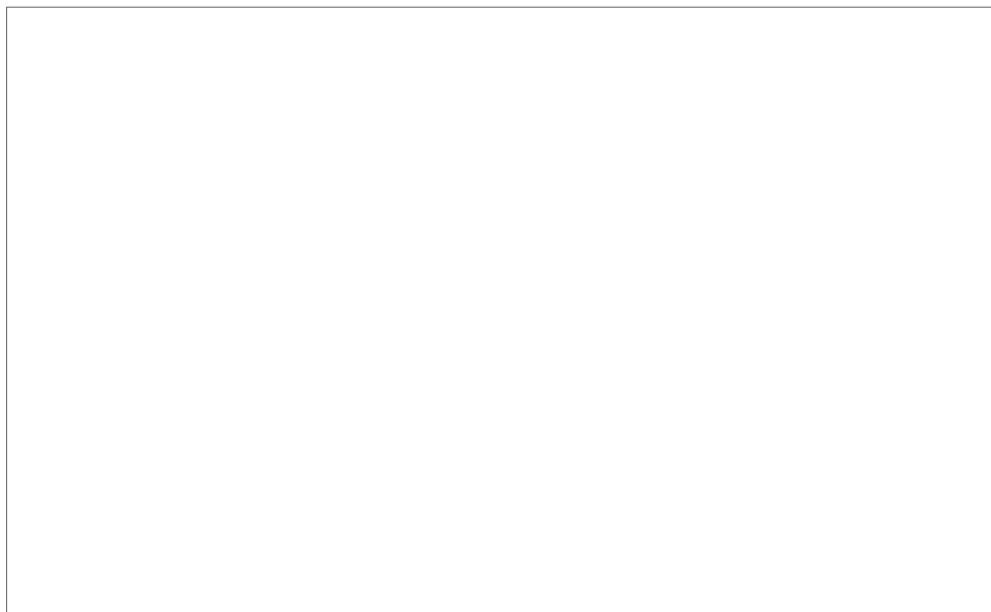
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ISRAEL: Aftermath of Terrorist Attack

The bus hijacking in Israel on Thursday almost certainly will result in a major retaliatory attack on Palestinian positions in Lebanon. Officials in the Israeli Defense Ministry claim they have identified the four individuals involved in the incident as members of Fatah. They say the four recently joined a terrorist cell in the Gaza Strip. The Israelis believe that the attack reflects an overall PLO policy of increasing terrorism in Israel and that Fatah is trying to restore its credibility with the more radical factions in the PLO. [REDACTED]

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Comment: The Israelis believe that the hijacking and the recent increase in PLO attacks on Israeli soldiers in Lebanon require a response. They realize that retaliation against the PLO in Lebanon will not prevent terrorism in Israel, and they are likely to tighten internal security measures. [REDACTED]

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USSR-EASTERN EUROPE: Economic Summit Announced

Soviet First Deputy Foreign Minister Korniyenko has announced that the CEMA summit will be held in Moscow in June. Another Soviet official told the US Embassy in Bucharest that major problems related to the summit either have been resolved or are being worked out. In particular, he said that the supranational role of CEMA is not an issue and never had been. [REDACTED]

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Comment: The summit is unlikely to produce substantial changes in Soviet-East European economic relations. East European opposition has forced Moscow to ease its demands for closer economic integration in CEMA. The key issues that probably will be addressed at the summit include the quantity and quality of East European exports to the USSR to reduce trade deficits, and East European investment in Soviet development projects in exchange for supplies of energy and raw materials. [REDACTED]

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YUGOSLAVIA: Conflict Over Economic Reform

The US Embassy says Prime Minister Planinc warned last week that she and her cabinet will resign unless the legislature quickly approves legislation carrying out her economic policies and ensuring adherence to the IMF program ratified last month. While acknowledging the high cost of complying with the Fund's conditions, Planinc warns that failure to adhere to the program would entail even greater economic sacrifice and that she would be unwilling to lead the country under such circumstances. At the Fund's insistence, a price freeze will be lifted at the end of this month—adding to the inflation—and interest rates will be raised by as much as 18 percent. [REDACTED]

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Comment: Planinc seems to be using the tough IMF program, reinforced by her threat to resign, to help push through her economic stabilization program. She has threatened to resign before, but her evident frustration with the political obstacles impeding stabilization adds weight to her current threat. [REDACTED]

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BOLIVIA: President's Political Gains

President Siles is trying to strengthen his position by announcing tough economic measures and by broadening his political base through a cabinet shuffle. Earlier this week he announced the reincorporation into the government of the Movement of the Revolutionary Left, which has been an outspoken critic since it withdrew from the cabinet in January 1983. Yesterday Siles announced a large devaluation and higher prices for food, gasoline, and transportation. To compensate for the rising cost of living, the government also decreed quarterly indexation of wages and subsidies for food and transportation. [REDACTED]

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Comment: Siles's ability to coax the Movement of the Revolutionary Left into the cabinet immediately before announcing austerity measures will improve his credibility and strengthen his prospects for dealing with labor's reaction. The decision to increase wages and to provide other subsidies also should help mollify labor. Although the austerity package does not meet all of the IMF's requirements for a standby loan, it will facilitate further discussion with the fund and will help stimulate other foreign assistance. [REDACTED]

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In Brief**USSR**

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- Wife of **Soviet** dissident Sakharov says he needs immediate phlebitis operation . . . leadership so far has ignored his requests to be hospitalized in Moscow . . . might now agree, to avoid likely scandal if he were to die in Gorkiy. []

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Eastern Europe

- **Czechoslovak** Foreign Minister seeking an invitation to visit **West Germany**, hoping to resume annual consultations . . . suggests that moratorium that began late last year on contacts with INF basing countries has been lifted. []

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Americas

- **Nicaraguan** Defense Minister met **Soviet** counterpart in Moscow on Thursday . . . has said he is seeking more arms . . . TASS account, however, does not mention specific arms aid . . . portrayed visit as stopover on way home from North Korea. []

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Africa

- [] **Libya** shows 50 armored vehicles arrived on Thursday at Kufra in the southeast []

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- **Iranian** Consultative Assembly election tomorrow . . . runoffs likely in two weeks for most of 270 seats . . . new Assembly will open on 28 May if two-thirds of results declared valid by review panels. []

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Europe

- **EC** has notified GATT it plans to tax some imports of US-produced corn gluten feed, worth \$500 million last year . . . EC has 90 days to offer compensation, after which US free to retaliate . . . EC may next try to restrict US soybean sales, worth nearly \$4 billion a year. []

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- **Spain** has announced it will buy **French-West German** Roland surface-to-air missiles . . . US and **British** systems had been in running . . . Madrid wants to broaden sources of arms. []

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